



# *State of Utah*

## *Comprehensive Annual Financial Report*

*For the fiscal year ended June 30, 2005*

**State Of Utah**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For The Fiscal Year Ended June 30, 2005

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**CONSTITUTIONAL OFFICERS OF THE STATE OF UTAH**

Jon M. Huntsman, Jr. .... Governor  
Gary R. Herbert ..... Lt. Governor  
Auston G. Johnson, CPA ..... State Auditor  
Edward T. Alter, CPA ..... State Treasurer  
Mark L. Shurtleff ..... Attorney General  
John L. Valentine ..... President of the Senate  
Greg J. Curtis ..... Speaker of the House  
Christine M. Durham ..... Chief Justice, Supreme Court

**OTHER STATE OFFICIALS**

D'Arcy Dixon Pignanelli ..... Executive Director, Dept. of Administrative Services  
John C. Reidhead, CPA ..... Director, Division of Finance  
Richard K. Ellis ..... Director, Office of Planning and Budget  
John E. Massey ..... Legislative Fiscal Analyst  
John M. Schaff, CIA ..... Legislative Auditor General  
Michael E. Christensen ..... Director, Legislative Research and General Counsel

**ACKNOWLEDGMENTS**

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Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.



**State of Utah**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2005

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## State of Utah

JON M. HUNTSMAN, JR.  
Governor

GARY R. HERBERT  
Lieutenant Governor

## Department of Administrative Services

D'Arcy Dixon Pignanelli  
Executive Director

### Division of Finance

John C. Reidhead, CPA  
Director

November 14, 2005

To the Citizens, Governor,  
and Members of the Legislature  
of the State of Utah:

It is our pleasure to present the 2005 Comprehensive Annual Financial Report of the State of Utah in accordance with Section 63A-3-204 of the *Utah Code*. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State's management. To the best of our knowledge and belief, the enclosed data accurately presents the State's financial position and results of operations in all material respects in accordance with generally accepted accounting principles (GAAP). We believe that all disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

**Internal Control.** The State's systems of internal control over assets recorded in the accounting system have been designed to provide reasonable, but not absolute, assurance of safeguarding assets against loss from unauthorized use or disposition and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

**Independent Auditors.** In compliance with state statute, an annual financial audit of the "State Entity" is completed each year by the Utah State Auditor's Office in conjunction with other independent audit firms. Their audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The State Auditor's report on the Basic Financial Statements is included in the Financial Section of this report.

Federal regulations also require the State to undergo an annual "Single Audit" in conformance with the Federal Single Audit Act of 1984, as amended, and the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Information related to the Single Audit, including the schedule of expenditures of federal awards, audit findings and recommendations, summary of prior audit findings, and the State Auditor's report, is issued in a separate report and will be available at a later date.

**Management's Discussion and Analysis (MD&A).** The discussion and analysis beginning on page 14 provides an overview and analysis of the State's Basic Financial Statements. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it.

### PROFILE OF THE GOVERNMENT

**Structure.** As shown in the organizational chart on page 10, state government is divided into three separate branches: legislative, executive, and judicial. The duties of each branch are outlined in the *Constitution of Utah*, which can be amended only by a majority vote of the State's citizens, and in the *Utah Code*, which can be amended by the Legislature or by citizen initiatives. State government services provided to citizens include building and maintaining roads; providing public safety,

health, and environmental protection services to protect the general welfare of the state's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

This report includes all funds of the State of Utah and includes all departments, agencies, and other organizational units governed by the Legislature and/or the constitutional officers of the State. In addition to these *primary government* activities, this report includes information related to component units that are financially accountable to the State. Although such information is provided in this report, the MD&A and Basic Financial Statements focus on the primary government and its activities. Separately issued financial statements are available from the significant discretely presented component units and should be read to obtain a better understanding of their financial conditions. Additional information on all discretely presented components units can be found in the notes to the financial statements (see Note 1. A.).

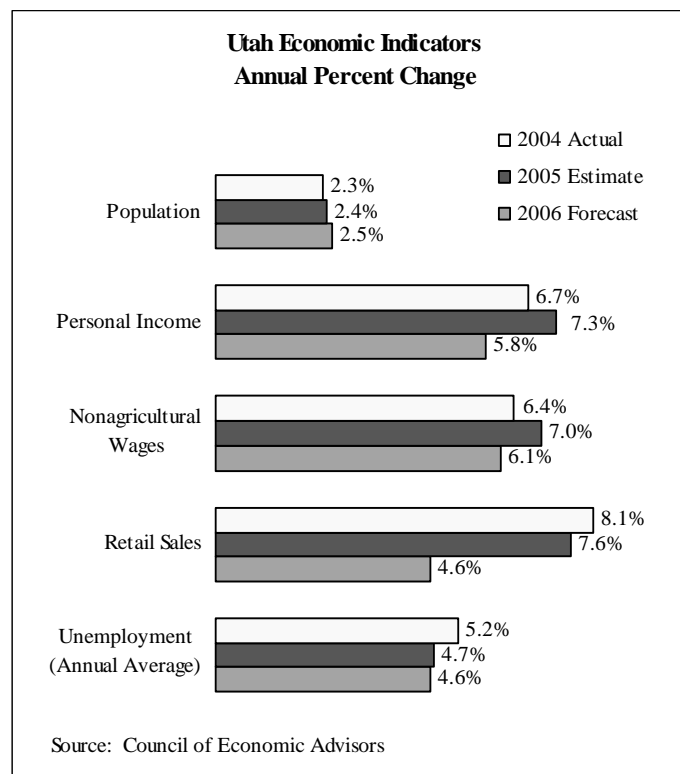
**Budgetary Control.** The *Constitution of Utah* requires that budgeted expenditures not exceed estimated revenues and other sources of funding, including beginning fund balances. Annually, the Governor is required to submit a balanced budget by fund, function (e.g., health), and activity (e.g., medical assistance) to the Legislature. The Legislature authorizes expenditures in the annual *Appropriations Acts*. The Acts also identify the sources of funding for budgeted expenditures. In the event actual revenues are insufficient to cover budgeted expenditures, the Governor must order budget reductions or call a special session of the Legislature to address budget issues. Adjustments to the budget may also be made throughout the year for changes in departmental or fund revenues so that departments and funds will not end the fiscal year in a deficit position. For additional information on budgetary control see the notes to Required Supplementary Information on page 111.

**Spending Limitation.** The State has an appropriation limitation statute that limits the growth in the combined appropriations from the General Fund and from income tax revenues for higher education to the relative growth in population and inflation. The appropriations limit was also recently amended by the 2005 Legislature as more fully explained in the notes to Required Supplementary Information on page 111. For the fiscal year ended June 30, 2005, the State was \$88.2 million below the appropriations limitation. The State is currently below the fiscal year 2006 appropriations limitation by \$69.1 million.

## ECONOMIC CONDITIONS AND OUTLOOK

**Economy.** Nationally, corporate before-tax profits increased 13.0 percent in 2004 and are expected to rise 34.8 percent through the end of 2005 as the economy continues to improve. The national unemployment rate is expected to drop to 5.1 percent in 2005 and 4.9 percent in 2006, down from 5.5 percent in 2004. Utah's economic indicators have resembled national trends, although the State is recovering faster than the nation from the 2002-2003 economic downturn.

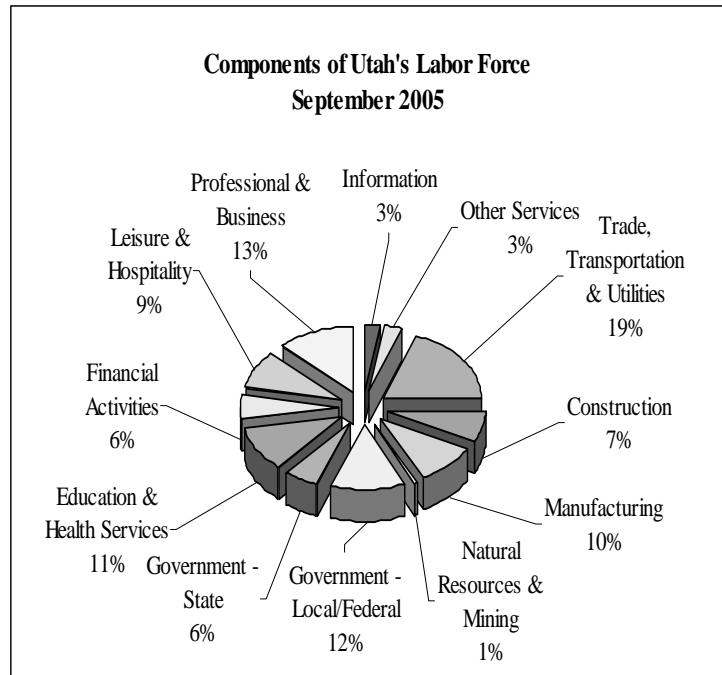
Utah's unemployment rate is expected to continue its decline from 5.2 percent in 2004 to 4.7 percent in 2005, and to 4.6 percent in 2006. This trend represents continued improvement from the unemployment high of 5.7 percent in 2002 and 2003. However, the State's unemployment rate is still higher than the ten-year low of 3.1 percent in 1997. With the continuing drop in unemployment, personal income and nonagricultural wages are expected to increase in 2006 by 5.8 percent and 6.1 percent, respectively. Retail sales are estimated to grow 7.6 percent in 2005 and 4.6 percent in 2006. Both personal income and retail sales have rebounded significantly from the low growth rates experienced in 2002 of 2.2 percent and 2.4 percent, respectively. In 2004, the value of home construction reached an all-time high of \$3.6 billion. Home construction values are expected to increase even higher in 2005 to \$4.3 billion and remain strong during 2006 as low interest rates continue to drive new home construction. Utah is expected



to have a net in-migration in 2005 of 23,500. Utah has had net in-migration for the past 15 years and this trend is expected to continue in 2006.

**Industries.** Utah's nonagricultural employment is expected to increase 3.6 percent in 2005. From September 2004 to September 2005, every industry experienced positive employment growth led by construction (11.4 percent) and natural resources and mining (11.1 percent). Construction supplanted professional and business services as the industry adding the most new jobs. Other industries experiencing strong growth in the past year were professional and business services (6.1 percent), information (5.4 percent), education and health services (3.6 percent), state government (3.1 percent), financial activities (2.7 percent), and trade, transportation and utilities (2.4 percent). The growth in construction jobs of 8,900 is strong and there are plenty of commercial projects active or anticipated in Utah to keep the construction industry vibrant over the next two years. Other industries that contributed significantly to job growth in the State were professional and business services (8,400); trade, transportation and utilities (5,400); education and health services (4,500); manufacturing (2,500); and leisure and hospitality (2,200). The addition of jobs in the professional and business services industry is of particular value to Utah. Not only are there higher wages associated with these jobs, but it also represents a recovery of many of the jobs lost during the early 2000's.

**Outlook.** Utah's economy is expected to continue its steady growth. However, increasing costs for goods and services, impacted by higher fuel prices, will likely moderate the growth rate in the near term. The State is positioned well for positive long-term economic growth due to its industrial diversity, population growth, and young and highly educated workforce.



## MAJOR INITIATIVES

An improving state economy provided nearly \$400 million of increased income and sales tax revenues in fiscal year 2005. These additional funds were directed to priorities such as economic development, education, infrastructure, quality of life and governance.

**Economic Development.** The Governor has emphasized economic development to ensure Utah's continued success. With the passage of House Bill 318, *Community and Economic Development*, 2005 General Session, the State's economic development function was moved from the Department of Community and Economic Development to the newly created Governor's Office of Economic Development, which reports directly to the Governor's economic development policy advisor.

In an effort to attract more tourism to the State, the Legislature also passed Senate Bill 1002, *Funding for Tourism* in a 2005 special session. The bill provided \$14 million of one-time money in fiscal year 2006 for the advertising and marketing of Utah, both nationally and internationally. The bill also appropriated \$4 million in additional funds to be transferred, contingent on fiscal year 2005 surpluses, to the Tourism Marketing Performance Account. This account collects a percentage of tourism-generated tax revenue and provides a funding source for promoting tourism. This bill should increase tourism-related revenues over time and provide additional opportunities for industries that rely on tourism.

Furthermore, a primary initiative of the Governor is tax reform. House Bill 78, *Corporate Franchise and Income Tax Amendments*, passed in the 2005 General Session, allows corporations the option of using double-weighted sales in calculating their tax liability to the State. Although this is expected to result in short-term revenue reductions, Utah should see a significant long-term benefit as more corporations are attracted to the State by this tax advantage.

**Education.** The State provided \$75.7 million for fiscal year 2006 to increase salaries and benefits for teachers through a 4.5 percent increase in the Weighted Pupil Unit. The Legislature also appropriated an additional \$51.3 million to higher

education in fiscal year 2006. This included \$27.4 million as equivalent funding for salary and benefit increases and \$17.6 million for engineering, technology, nursing initiatives, increased fuel and power rate increases, and faculty retention.

**Infrastructure.** The State has developed a national reputation for strong fiscal management. In the 2005 General Session, the Legislature authorized only \$4.5 million in new general obligation bonds, placed almost \$38 million of ongoing funds in the Capital Developments base budget, and used one-time dollars to fund the remaining capital development projects for fiscal year 2006. This was a significant step toward returning to a “Pay as You Go” (PAYGo) plan in which the State’s debt burden is controlled by funding as many capital projects as possible with cash. Projects funded with cash in fiscal year 2005 included the State Capitol restoration and the University of Utah Marriott Library.

In the past decade, highway funding has not kept pace with the increased number of individuals traveling on Utah’s roads. Therefore, funding for transportation was a major priority of the 2005 General Session. For fiscal year 2006, the Centennial Highway Fund received an increase in funding of \$90 million, plus an additional \$30 million of one-time money. In addition, the Legislature created the Transportation Investment Fund. Beginning in fiscal year 2006, this fund will receive a portion of sales and use tax revenue to pay the cost of maintenance, reconstruction, and renovation of specific state and federal highways.

**Quality of Life and Governance.** The rising cost of health care continues to pose a challenge to the citizens of Utah, including the State’s Medicaid recipients. For fiscal year 2005, the Legislature increased General Fund appropriations for Medicaid by \$60.3 million, or 26.6 percent, over fiscal year 2004. This included \$18.6 million to cover caseload growth; \$6.8 million for increases in pharmacy, hospital, and other provider rates; and approximately \$37 million to replace one-time federal and restricted funds received in fiscal year 2004. In addition, the Governor was successful in restoring \$5 million in adult vision and dental services within the Medicaid program for fiscal year 2006. This funding will allow thousands of citizens, who would otherwise be unable to afford these services, to address critical dental problems and receive eyeglasses.

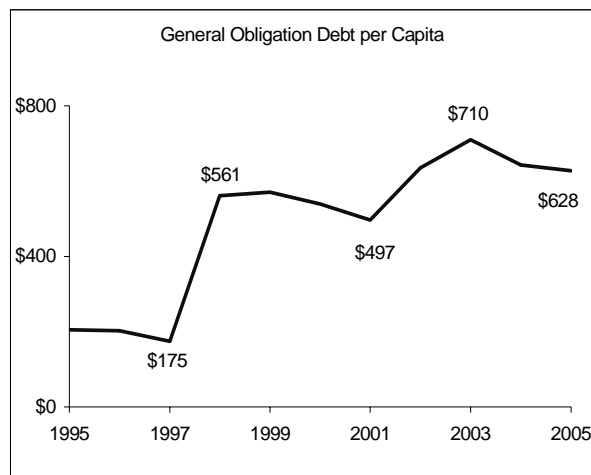
As a result of the rising health care costs and the significant impact these costs have on the State’s postemployment benefit obligation for current and future state retirees, the 2005 Legislature passed House Bill 213, *Unused Sick Leave at Retirement Amendments*. This bill phases out the maximum five year state-paid health and life insurance benefits available to state employees under age 65 at retirement. In addition, it changes how unused accumulated sick leave, earned after December 31, 2005, can be used upon retirement for acquiring health care benefits. See Notes 2 and 17 for additional information on postemployment benefits.

Finally, House Bill 109, *Information Technology Governance Amendments*, created the new Department of Technology Services to consolidate services and resources under a single department. As the Department is phased-in during fiscal year 2006 and begins operations in fiscal year 2007, efficiencies are expected to be realized as the State takes advantage of pooled expertise, cross training of staff, and elimination of duplicative systems and technology.

## FINANCIAL INFORMATION

**Cash Management.** As further explained in Notes 1, 3, and 4 to the Basic Financial Statements, cash is controlled by the State Treasurer or by other administrative bodies as specified by law, and investments are made in compliance with the State Money Management Act (*Utah Code*, Title 51 Chapter 7). All cash deposited with the State Treasurer by state entities is managed in pooled investment funds to safeguard assets and to maximize interest earnings. The Treasurer invests the cash, including the cash float, in short-term securities and other investments such as certificates of deposit, obligations of the U.S. Treasury, commercial paper, and repurchase agreements. Certain investment pools may invest in corporate bonds and equity securities.

**Debt Administration.** The State’s general obligation bonded debt jumped significantly in 1998 due to issuing bonds for highway construction, mostly for rebuilding I-15 in Salt Lake County. Total general obligation debt remained fairly stable from 1999 through 2001. In fiscal years 2002 through 2003, under budget constraints coupled with a low interest rate environment, the State elected to increase its debt by issuing more bonds for highway and building projects that otherwise would have been funded from current revenues. During fiscal



year 2005, the State issued \$140.6 million of general obligation bonds for highway and capital facilities construction. More information about the State's long-term debt is found in Note 10 to the Basic Financial Statements.

**Risk Management.** The State is self-insured against certain property and liability claims. The Legislature established the Risk Management Fund to pay for commercial insurance or to accumulate reserves for the self-insured portion of certain property and liability risks. Revenues are generated from premiums charged to state departments, institutions of higher education, and local school districts. The property self-insurance limits for fiscal year 2005 were \$1 million per claim, with an annual aggregate of \$2.5 million per policy year. Generally, claims over the self-insured limits are covered by policies with private insurance companies.

**Pension Plans.** The Utah Retirement Systems (URS) defined benefit pension systems' combined total net assets increased by \$1.8 billion, or 12.9 percent during calendar year 2004. The increase was primarily due to the increase in equity markets and increasing retirement contributions. However, even with the increase in total net assets, the average funded ratio of all systems decreased from 94.7 percent at the beginning of 2004 to 92.5 percent at December 31, 2004, due to increases in the actuarially determined pension obligations. Operations of the pension systems continue to be managed based on sound actuarial funding principles, thus protecting participants' future benefits. Although increases in required contribution rates are expected in the near term, the pension systems are poised for the opportunities and growth an improving national economy will bring.

### CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the State of Utah for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the twentieth consecutive year the State has achieved this prestigious award.

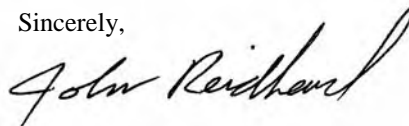
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate. We are committed to this effort, and we intend to maintain a highly qualified and professional staff to make this certification possible.

### CONCLUSION

We hope this report provides data useful in evaluating the financial activity of the State of Utah. We express our appreciation to the budget and accounting officers throughout state government and to the Utah State Auditor's Office for their dedicated efforts in assisting us in the preparation of this report.

Sincerely,

A handwritten signature in black ink, appearing to read "John Reidhead", is written over a faint, circular official seal.

John C. Reidhead, CPA  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Utah

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Ziehl*

President

*Jeffrey R. Enen*

Executive Director

# State of Utah Organization Chart

